

Message Text

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PAGE 01 PHNOM 03300 071155 Z

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ACTION AID-31

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FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 0823

C O N F I D E N T I A L PHNOM PENH 3300

AIDAC

FOR OLMSTED

REF: STATE 061701; (B) PHNOM PENH 3282

1. EVERS IN CONVERSATION ON APRIL 5 STATED HE CONSIDERED THE CABINET TO BE IN FINAL STAGES OF CONSIDERATION OF LUXURY GOODS PROBLEMS. THE CABINET APPEARS ABOUT TO ADOPT EVER' S PROPOSALS TO APPROACH THE PROBLEM THROUGH TAXATION.

2. FOLLOWING IS A SUMMARY OF THESE PROPOSALS:

A. THE SUPPORT THE WAR TAX ON MOST AUTOMOBILES (ROUGHLY SPEAKING HAVING F. O. B. COST OF MORE THAN \$2400) AND SMALL BUSES WOULD BE RAISED FROM 130 TO 150 PERCENT. THIS TAX (AS BEFORE) WOULD BE APPLIED TO THE CIF VALUE OF THE VEHICLE INCREASED BY THE PRESENT DUTY WHICH VARIES FROM 57 TO 67 PERCENT.

B. THE SUPPORT THE WAR TAX ON SMALLER VEHICLES, INCLUDING MOTORCYCLES (ALREADY TAXED AT 80 PERCENT) AND SO CALLED CAMIONETTES

WOULD BE RAISED FROM 3 TO 100 PERCENT. THE FACT THAT SUCH A LOW TAX HAS BEEN APPLIED IN THE PAST SEEMS TO REFLECT A HIGHLY TECHNICAL DETERMINATION BY THE MINISTRY OF FINANCE AND OBVIOUSLY HAS BEEN AN ATTRACTIVE LOOPHOLE FOR THE FUNCTIONNAIRES AND IMPORTERS.

C. THE SUPPORT THE WAR TAX ON LARGE TRUCKS AND BUSES WOULD BE RAISED FROM 3 TO 50 PERCENT.

D. ALL LUXURY GOODS, APPARENTLY BROADLY DEFINED WOULD CARRY A SUPPORT THE WAR TAX OF 100 PERCENT.

E. EVERS IS HOPING THAT THE DUTIES AND TAXES ON VEHICLES WILL BE COLLECTED OUT OF THE 300 PERCENT ADVANCE DEPOSIT REQUIREMENT

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 PHNOM 03300 071155 Z

AND THAT THIS PRACTICE WOULD BE EXTENDED TO OTHER GOODS.
F. THE ADVANCE DEPOSIT ON PHARMACEUTICALS WOULD BE REDUCED
TO 25 PERCENT.

2. WE REVIEWED WITH EVERS OUR POSITION AS STATED TO HIM AND
GKR ON LUXURY GOODS AND EXPRESSED OUR DOUBTS AS TO THE EFFICIENCY
OF THE TAX MEASURES EXCEPT PERHAPS IN THE CASE OF VEHICLES (IF
THERE IS ADVANCE COLLECTION TO DUTY AND TAXES). WE POINTED OUT
THE MISERABLE RECORD IN 1972 WHEN TAX COLLECTIONS DECREASED IN
REAL TERMS EVEN THOUGH IMPORTS WERE MARKEDLY HIGHER. WE NOTED
THAT HIS APPROACH TO PHARMACEUTICAL PRICING WAS BASED SOLELY ON
POLITICAL CONSIDERATIONS AND THAT EXTENT DID NOT DIFFER FROM
OUR FEELING ABOUT THE BEST WAY TO HANDLE LUXURY GOOD IMPORTS.
FINALLY, WE EXPRESSED SOME RESERVATIONS TO UTILIZATION
OF DEPOSIT REQUIREMENT AS A MEANS FOR TAX COLLECTION SINCE
IT TENDED TO PERPETUATE THE PRACTICE OF ADVANCE DEPOSITS. WE
INDICATED WE WOULD NOT PURSUE THE MATTER FURTHER UNLESS THE
CABINET
FAILED TO TAKE DECISION IMMEDIATELY AND/ OR APPLICATIONS FOR F/ X
FOR SUCH GOODS DID NOT DROP SHARPLY AFTER THE GOVERNMENT DECISION
WAS PUT INTO EFFECT.

3. WE EXPRESSED CONCERN OVER " STUCK" EXCHANGE RATE. EVERS RE-
SPONDED THAT FOR FIRST THREE MONTHS SALES ON NOUVEAU MARCHÉ WERE
AT AN ANNUAL RATE OF SIGNIFICANTLY LESS THAN \$35 MILLION. WE
RESPONDED BY POINTING OUT THAT SALES IN LAST TWO WEEKS WERE AT A
MUCH HIGHER RATE AND DID NOT SEE ANY JUSTIFICATION FOR SETTING
THE RATE LOWER THAN THE MOST APPRECIATED RATE BID. IT THEN TURNED
OUT THAT HE FELT THAT A CHANGE IN THE RATE NOW WOULD BE " INFLATIONARY
".

THIS CAME AS A SHOCK. WE REMINDED HIM THAT PAST HISTORY SHOWED
THAT UNLESS THE RATE MOVED REGULARLY A TIME CAME WHEN THERE WAS NO
ALTERNATIVE TO LARGE JUMPS AND THAT THIS USUALLY PRODUCES A HIGHER
RATE OF DEMAND FOR F/ X. WE CONCLUDED BY SAYING THAT USG SUPPORT
OF ESF WAS BASED ON A PERIODICALLY ADJUSTED RATE AND THAT WE COULD
NOT GO ALONG WITH WHAT WOULD QUICKLY BECOME OVERVALUED RATE IF
THERE
WAS PHILOSOPHY THAT RATE CHANGES WOULD BE INFLATIONARY. WE RE-
STATED WHAT WE ALL SAID TO TOMASSON IN JANUARY, NAMELY, THAT
WE FAVORED REGULAR SMALL PLANNED CHANGES IN THE RATE. YOU MAY WISH
TO FOLLOW THIS UP WITH IMF.

4. EVERS ASKED IF HE KNEW THAT WOODLEY HAD TOLD HIM ABOUT LUXURY
GOODS. RESPONDED THAT WE DID.

CONFIDENTIAL

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PAGE 03 PHNOM 03300 071155 Z

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